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NOTES

WASHINGTON NOTES

THE REPORT ON AGRICULTURAL CREDIT

The report of the United States Commission on Agricultural Credit (Senate Document No. 380, Parts 1 and 2, 63d Cong., 2d sess.) has been presented to the Senate under date of January 29 and published. The main idea of the report is that agricultural credit is naturally to be divided into two great classes, namely, long-term or land-mortgage credit, which may be briefly defined as credit to meet the capital requirements of the farmer, and short-term or personal credit. In European systems, the distinction between these two classes of credit is sharply drawn, and the requirements of the two classes are met by the organization of separate institutions differing fundamentally in their plan of operation. In defining the needs of the American farmer in this connection, the commission includes under the head of long-term credit the farmer's call for large sums of money to be used in aiding him to pay the purchase price of the farm, in improving the farm, erecting new buildings, draining, irrigating, or clearing, or equipping the farm so as to bring the operations to the highest state of efficiency; while the short-term requirements are made to embrace those with reference to the financial needs of the farmer in preparing his land, sowing the crops, and cultivating the same. By way of providing for the long-term requirements it is suggested that provision should be made for the issue of well-established land-mortgage bonds which shall be given a position similar to that accorded to state and federal bonds. Land-mortgage banks would be created under a bill, a copy of which is included in the report. This bill would permit the creation of a bureau of farm land banks in the Department of the Treasury which should oversee the organization of such farm land banks, any one bank to be organized by any ten persons taking shares worth \$25 each par value, capital in any one case not to be less than \$10,000. The farm land banks would be allowed to accept and pay interest on deposits to an amount not exceeding 50 per cent of capital and surplus, and to make loans for not more than thirty-five years secured by first mortgages. On the strength of these mortgages, the banks would issue collateral trust bonds secured

by the first mortgages and bearing interest at a rate not more than 1 per cent less than the rate on the mortgages used as security. In defending its proposal, the commission says that it

recognizes that too great ease in borrowing should not be encouraged, since this might result in an unreasonable increase in farm debt. On the other hand, it should not be forgotten that under the present system tenancy continues to increase and farmers have outstanding obligations easily exceeding two billions of dollars secured by mortgages on their farms, much of which was negotiated under very unfavorable circumstances and with very high rates of interest. It is believed that under the plans which have been formulated herein, and which are intended to be supplementary to the existing system, tenancy may be decreased, the needs of farmers be taken care of, and at the same time the outstanding obligations may be refunded on much more favorable terms and gradually reduced by the regular payment of small annual instalments impossible under the general system now found in this country.

The commission also recommends and provides in its bill for a lengthy system of repayment of loans by amortization. Of this it says that the investor in the national land bank bond will know that every mortgage held by the bank of issue contains a mandatory provision for amortization payments so that when the land bank bond held by him falls due, the bank will have received in cash from the farmer the amount of the mortgage held by the bank to secure such national land bank bonds. The loan to the farmer will have to be for not less than five years "because the amortization principle cannot be very well applied to a loan for a shorter period."

PROBLEMS OF THE NEW BANKING ACT

The Reserve Bank Organization Committee has completed its tour of the country for the districting of the United States with a view to the establishment of federal reserve banks and is now prepared to complete and announce its plans for such districting. The districting cannot be forecast until such time as the work of analysis of the testimony has been completed, but meanwhile the tour of inquiry has produced certain very important and interesting results bearing upon the problems to be met with in creating the reserve banks. These are clearly brought out by the records of the hearings in the various cities.

1. It has been found that one of the most serious problems to be dealt with will be that of defining and describing the rules to be followed in rediscounting commercial paper. Under the federal reserve act, the Federal Reserve Board is given the right to describe and define

this commercial paper in order that there may be a positive control of the business of the federal reserve banks. In the course of the hearings, much attention has been devoted to inquiries concerning the nature of commercial paper employed in the several districts visited, and the possibility of altering in some degree the methods in vogue. It has been found that a very large percentage of the paper presented for rediscount is so-called "single-name" paper, and that only in a minority of instances is the traditional two-name paper, protected by an original signature and the name of an acceptor, offered to the banks. The question is thus presented in very acute form whether or not the Reserve Board will be able at the outset to demand the use of actual commercial paper by would-be borrowers, and if not what will be the test to be applied in judging of an "actual commercial transaction"—it being the provision of the act that paper shall be rediscounted only when it is the outgrowth of such an actual transaction. The idea of requiring two names, it is now apparent, would greatly reduce the field of business open to the federal reserve banks, and would in like measure reduce the amount of relief that could be obtained by member banks that were counting upon employing the discount principle.

2. It has been found that in the process of applying the reserve act, one of the most significant provisions to be taken account of will be that which relates to the new system of clearings provided under the law. The act authorizes every federal reserve bank to act as a clearing-house for its members, while it also permits the Federal Reserve Board to act as a clearing-house for all reserve banks or to designate some one reserve bank to act as a clearing-house for all of the others. It is apparent from the investigations just made that even if federal reserve banks become members of the clearing-houses located in the cities in which they are placed, the latter institutions will be likely to lose much of their past importance and significance. The organization of a national clearing-house will obviate the necessity of shipping funds back and forth between different parts of the country and will consequently simplify very greatly the process of transmitting and offsetting obligations which has heretofore been an expensive element in the national mechanism of payment.

3. The hearings have disclosed a widely prevalent erroneous belief, which has in some measure been corrected by the discussions at the various places, that each individual district would have trouble in taking care of its own necessities because of "seasonal" demands for money. This is a reminiscence of the existing banking system under which such

seasonal demands have to be met by borrowing cash from other institutions located elsewhere. As the discussions at the hearings have brought out, one of the main purposes of the new law is that of providing for the furnishing of media of payment as a direct outgrowth of the commercial transactions to which they relate or which have resulted in producing a demand for such means of payment. The point has been made very much clearer in the course of these hearings than ever heretofore, that commercial operations should "clear one another," that is to say, should furnish their own means of payment.

"DISTRICTING" THE UNITED STATES

Interesting data for use in districting the country under the new act have also been developed in considerable quantity. Some of the principal points that have been made are as follows:

1. Very great variation in the size of districts will be necessary in order to bring about capitalizations for the several banks which will roughly correspond with one another.
2. The attempt to create one very large institution or a small number—say three or four—of such institutions would be distinctly unacceptable to the rank and file of bankers and business men, whose request is for more rather than fewer districts and reserve banks.
3. Almost necessarily, in view of the present distribution of banking capital, the Atlantic seaboard will be assigned a disproportionately large number of the banks, while the Pacific coast will in all probability be given but one and the Middle West a relatively small number.
4. Comparatively small capitalizations for the several banks would be satisfactory to the business interests of the western districts, so that enormously great areas will not, as a matter of fact, have to be included in order to produce a greater capitalization.
5. It will be far more important to have every part of the district within easy reach of the head office of the reserve bank than it will be to increase the size of the capitalization somewhat—this on account of the fact that quick clearing and absolute knowledge of credit conditions will be the fundamentals in effective banking, while the capitalization is a matter of relatively small moment, owing to the fact that the real strength of the reserve banks is found in their holdings of reserve funds and not in their capitalization.
6. The geographical areas to be included in a district must be as nearly as possible geographical units with good transportation facilities.

7. Where branch banks are established, it should be only in recognition of the existence of a very distinct and independent business section having its own trade customs and special types of commercial paper.

8. The use of branch banks will, however, probably have to be resorted to even from the start, in order to meet the urgent demands of individuals and communities desirous of having their own paper passed upon by local men who are familiar with the transactions out of which it grows, and the names of persons who are concerned in producing it.

9. While national banks will, in the great majority of cases, enter the system, and while some trust companies and savings banks will follow their example, the latter classes of institutions will probably not join the system in large numbers for some time to come, pending the definite establishment of the system.

10. There will be considerable difference as between the different parts of the country in the action of such state banks and trust companies, it being likely that they will be less disposed to join the system in those cases where their dealings in strict commercial paper are relatively small, than they will in those parts of the country where their business is more nearly on a parity with that of national banks.

THE FIRST REPORT OF THE DEPARTMENT OF LABOR

The first annual report of the Department of Labor has been sent by Secretary of Labor W. B. Wilson to the President under date of December 31, although its appearance has been delayed until far into February (*First Annual Report of the Secretary of Labor*). The document is of large interest as the first report of a newly organized department, and also as an indication of the existence of a new element in national administration. Without doubt, the Department of Labor now presents itself as a distinctly trade-union organization, conceiving its own function as that of aiding what is called "organized labor." This is made evident, not only in the general tone of the report, but also in the actual language used. Moreover, although the department was intrusted at the time of its organization with very important functions of industrial mediation, the report shows that it is in considerable danger of breaking down in the performance of these functions. Only in a few of the less important labor disputes of the year has it been able to accomplish results, the reason being that the employers are not willing to intrust their affairs to the Department of Labor under its present trade-union type of management, nor to agree to be bound by its decisions when

they believe that its methods are not altogether fair and that its point of view is biased in favor of their opponents. The situation is a serious matter because of the fact that federal mediation in labor disputes has for a long time past been urged as a means of escape from constant industrial warfare and has at the same time been practiced with considerable success in railway controversies where some notable settlements were accomplished during the last few years of the Department of Commerce and Labor. The new report makes it evident that, instead of advancing and strengthening the idea of mediation and conciliation, the organization of a distinct Department of Labor has definitely retarded the growth and advancement of this idea. While in part this unfortunate outcome, as revealed by the department's first annual report, is due to the present type of management and results from a too eager anxiety to co-operate with trade-unions, there is some ground for fearing that, especially under the influence of existing precedents, it will be difficult to place this branch of federal administration upon a non-partisan basis.

FIRST REPORT OF THE CHILDREN'S BUREAU

In conjunction with the report of the Department of Labor, should be considered the first annual report of the Children's Bureau which began operation on August 23, 1912, and which now for the first time reports its doings for a full fiscal year. The Children's Bureau has always been sharply opposed by those who have objected to unreasonable extension of federal activity in fields that are distinctly reserved to the several states and that afford little or no opportunity for actual measures of relief for bad conditions. The Children's Bureau, according to its own report, is now found to have been at work almost exclusively on questions of child labor and infant mortality. Child labor is an industrial condition over which, as practically universally admitted, federal legislation can exert no influence. Infant mortality is a statistical subject which has long been dealt with in the Census Bureau and for which no separate investigative machinery is needed. The report of the Children's Bureau thus furnishes another quite conclusive indication of the fact that recent extensions of federal bureaus and departments are not resulting in correspondingly increased efficiency but rather the reverse. In so far as useful, the Children's Bureau appears to be of service primarily as a statistical organization in which capacity it is manifestly quite unnecessary.

DEVELOPMENT OF THE NEW ANTI-TRUST BILLS

The new anti-trust bills of the administration, after passing through various forms, have at length assumed distinct shape as four measures introduced by Mr. Clayton, chairman of the Judiciary Committee of the House of Representatives (H.R. 12120, and "Numbers 1, 2, and 3, Committee print tentative bill," 63d Cong., 2d sess.). These bills seek (1) to define the acts to be regarded as violative of the anti-trust law, (2) to grant relief to individuals who have been injured by the operations of trusts or by discriminating prices, (3) to check interlocking directorates, and (4) to create an interstate trade commission. Hearings on the measures have been undertaken and have continued steadily throughout the month of February (Hearings Judiciary Committee H.R., February, 1914). Inspection of the records of the hearings shows that little has been added to the information previously available with regard to the trust question. The general business community has shown a strong disposition to avoid the hearing-room and most of the discussion has been carried on by lawyers, recognized lobbyists, so-called "students" of the trust question, and interlopers of one sort or another. Apparently the business public is partly indifferent and partly inclined to think that nothing it could say would have much influence. The general drift of the testimony has been in the direction of modifying all the bills, and particularly of introducing changes into the exceedingly broad powers which were proposed for the interstate trade commission. By the original bill providing for an interstate trade commission, almost inquisitorial authority was granted to this body and it would apparently have been able to ascertain and publish almost any class of facts it chose with respect to trade secrets, personal business affairs, and matters of purely private concern. On the other hand, both the administration and the legislators who have been in charge have shown a very distinct disposition to modify them in accordance with the criticisms offered, whenever it has been made plain that these criticisms were well founded and that the proposed measures would cause difficulty. The process of modifying the bills has been especially significant because of this apparent effort to shape legislation in accordance with the actually ascertained disposition of the public at large.

FRAMING A CENSUS OF MANUFACTURES

Preparations for the taking of the intermediate or five-year census of manufactures, now regularly provided for as a feature of Census Bureau work, have already begun, notwithstanding the fact that the

recurring decennial census of manufactures is only barely completed, owing to the delay incident to the taking of the last census, and that its data have not even as yet been fully published. The findings of the special commission named by Director Harris last autumn for the purpose of reviewing conditions in the Census Bureau have been carried out in the main, and have resulted in absolutely discarding considerable masses of material which had been accumulated during the decennial census period. In the effort to avoid a repetition of the blunders committed in the decennial census, Director Harris is now holding conferences with business representatives, committees of commercial associations, and others who are believed likely to furnish useful information. One thing that is being especially sought is a better classification of industries with a view to the avoidance of the misleading groupings which have been common in former censuses. It is also desired to eliminate much of the inaccurate detail which in other years has been collected as a basis for the making of campaign arguments with reference to the growth and development of manufacturing under protective tariffs. Within a comparatively short time the new schedules for manufactures which are now in process of formulation will have been completed. If they are simplified according to present efforts, the compilation of the statistical results will presumably be quicker, so as to permit the publication of the complete census of manufactures by the close of the period established by law. Meanwhile, the opening of this new undertaking practically marks the discarding, without any possibility of publication, of the costly mass of completed schedules relating to many subjects collected during the census of 1910.